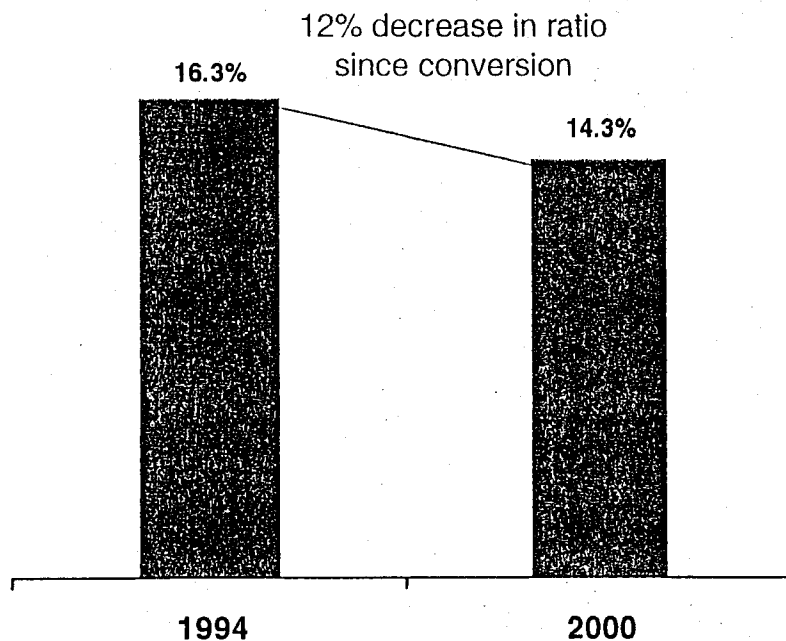
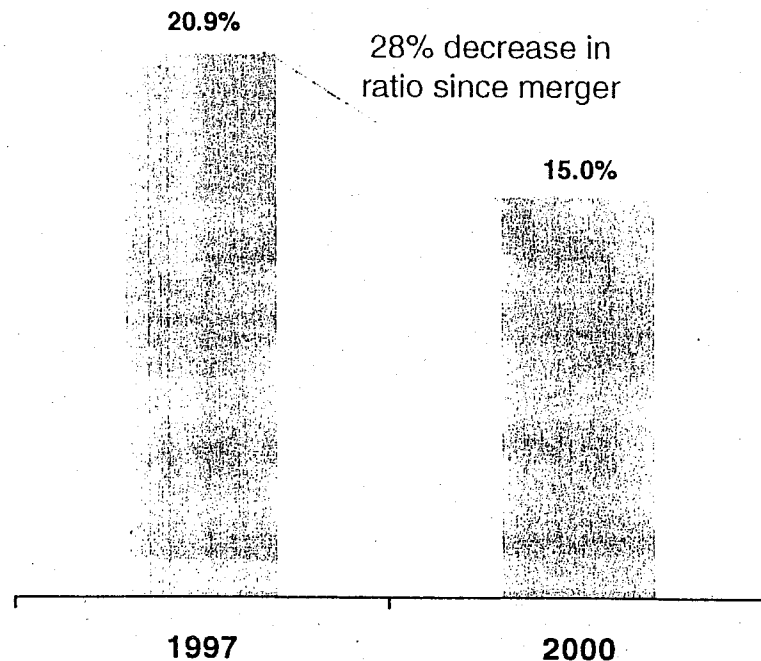


Both Blue Cross of California and BCBS of Connecticut experienced declines in their respective administrative expense ratios after converting/merging.

Admin Expense Ratio – Blue Cross of California (% of Total Revenue)

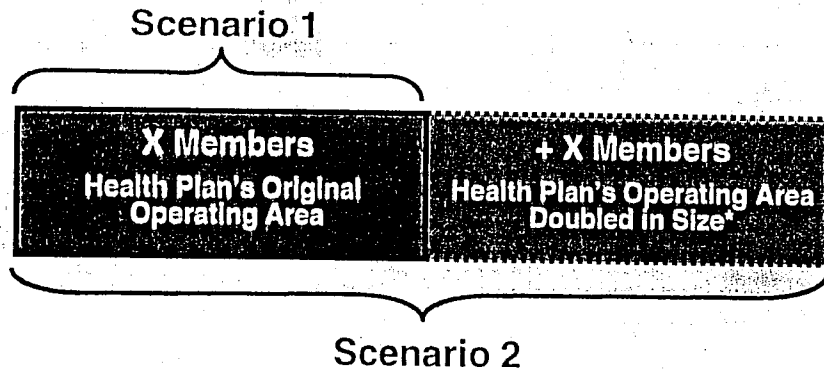


Admin Expense Ratio – BCBS of Connecticut (% of Total Revenue)



Source: InterStudy, The National HMO Financial Database, 1994-2000; data pulled from state Department of Insurance filings

Increased scale can also help stabilize a health plan's earnings, as they have larger bases of business to withstand downturns in individual segments of their businesses.



ILLUSTRATIVE

Scenario 1

A health plan earns a 3.0% profit margin on \$300M in revenue. The plan makes \$9M in net income.

A health plan's margin decreases by 50% to a 1.5% profit margin on \$300M in Revenue. The plan makes 50% less in net income.

Scenario 2

A health plan's margin decreases by 50% to a 1.5% profit margin. However, if the plan is able to double its member base, it will earn \$9M in net income.

**Market share remains constant*

Revenue	\$300M
Operating Margin	x 3.0%
Net Income	\$9.0M

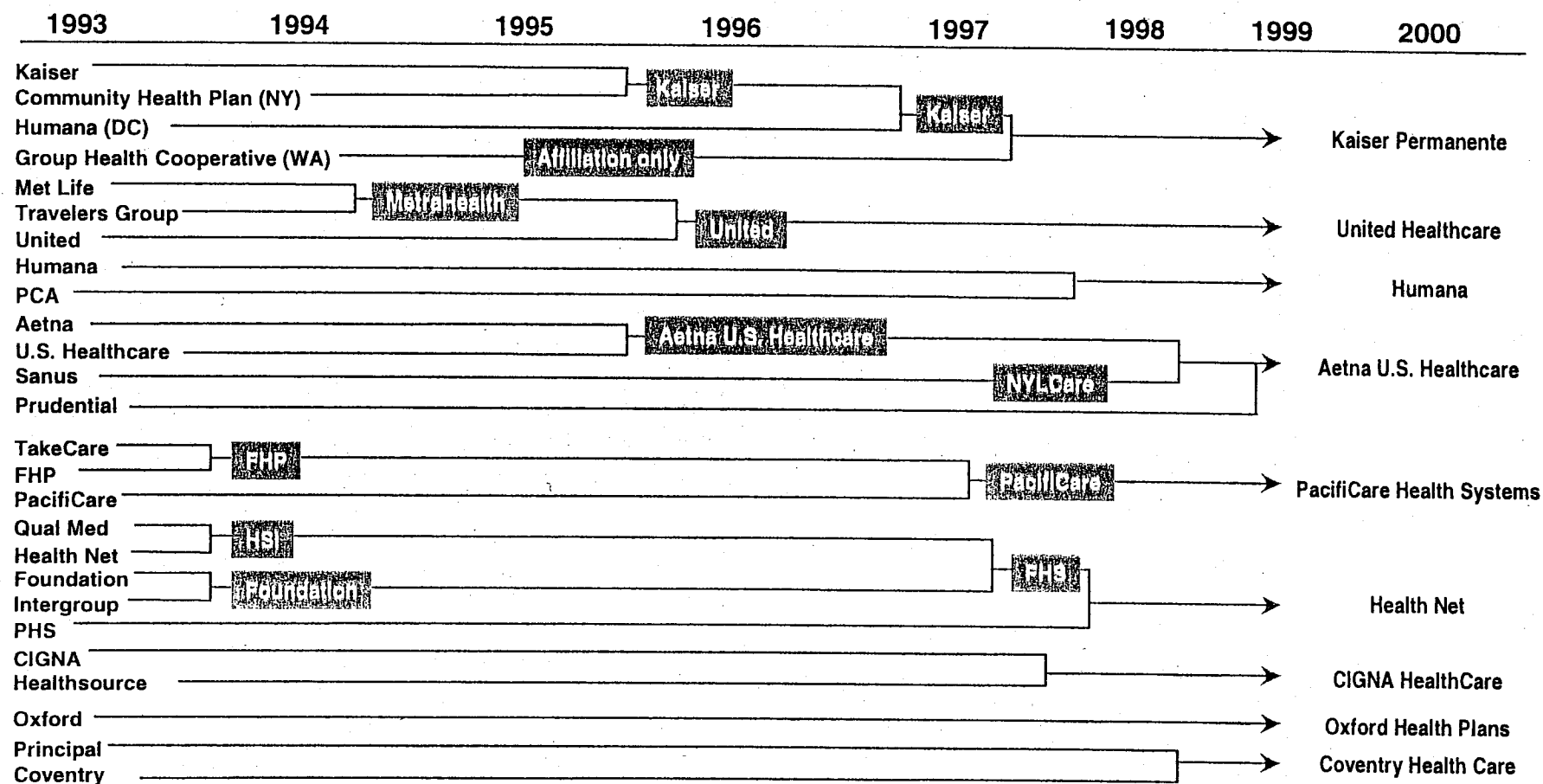
Revenue	\$300M
Operating Margin	x 1.5%
Net Income	\$4.5M

Revenue (Original \$30M + New Revenue \$30M)	\$600M
Operating Margin	x 1.5%
Net Income	\$9.0M

Margins decrease/income unchanged

There have been a large number of health plan combinations over the past 10 years.

Non-Blue Health Plan Consolidation



Recent combinations involve large plans acquiring smaller, community-based plans.

Examples of Recent Health Plan Activity

(Non-Blues Health Plans)

Year	Health Plan Activity
1999	<ul style="list-style-type: none"> Health Risk Management, Inc. completed its purchase of Oxford Health Plans of Pennsylvania, Inc and renamed the plan HRM Health Plans, Inc. Health Net, Inc. (formerly Foundation Health Systems) sold its plans in Texas, Oklahoma and Louisiana to AmCareCo, Inc., the parent company of AmCare Health Plans Aetna U.S. Healthcare began offering an HMO and point-of-service plan in the Raleigh-Durham area North Carolina Kaiser Permanente Northeast Division closed effective December 31, 1999 after operations in Connecticut, Massachusetts, New York, North Carolina and Vermont were all sold HealthCare America Plans, Inc. (KS) was acquired by Coventry Health Care of Kansas, Inc. - Wichita
2000	<ul style="list-style-type: none"> Harris Methodist Health Plan (TX) was acquired by PacifiCare Health Systems United Healthcare exited the Pacific Northwest and transitioned its members to Premera Blue Cross in Washington and LifeWise in Oregon Coventry Health Care, Inc. completed it's acquisition of Maxicare Louisiana, Inc. Coventry Health Care, Inc. completed it's acquisition of WellPath Community Health Plans, the managed care subsidiary of Duke University Health System
2001	<ul style="list-style-type: none"> Group Health Plan (MO), a subsidiary of Coventry Health Care, Inc., acquired the commercial membership of Health Partners of the Midwest Coventry Health Care of Kansas, Inc. signed a definitive agreement to acquire Kaiser Foundation Health Plan of Kansas City

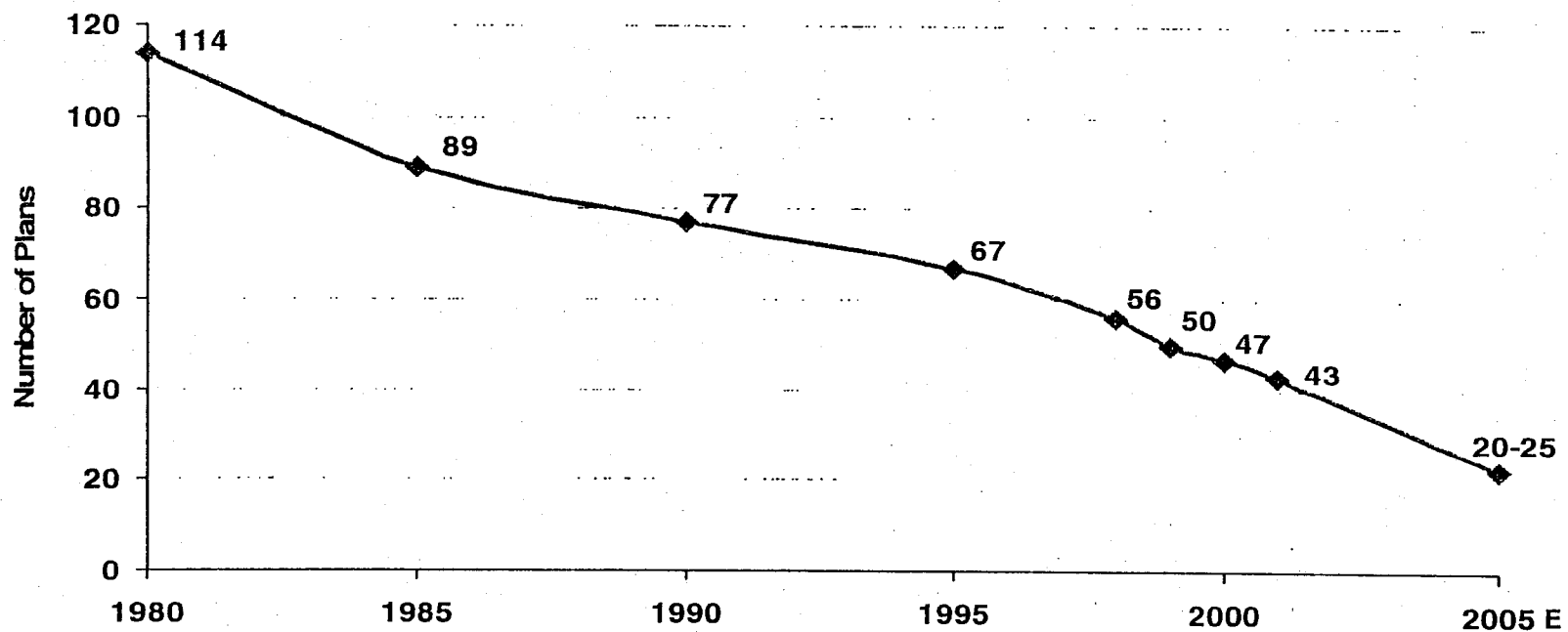
Source: The InterStudy Competitive Edge: HMO Industry Report 10.1 & 11.1, *References: Changes in the HMO Industry*, April 2000 & April 2001

© Accenture 2001

There has been an unprecedented reduction in the number of BCBS plans from 114 to 43 over the past 20 years, with industry analysts seeing this trend continuing.

Blue Cross Blue Shield Consolidation

(Number of Plans by Year)



Source: Conning & Company, *The Blue Cross and Blue Shield Plans: Past, Present and Future*, 2000; BCBSA Data for Years: 1980, 1985, 1990 and 2001